

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 SP-02 USIA-06 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
L-03 H-01 PA-01 PRS-01 CIAE-00 COME-00 FRB-03
INR-07 NEA-10 NSAE-00 OPIC-03 LAB-04 SIL-01
AGRE-00 /114 W

-----291532Z 050920 /53

R 291141Z APR 77
FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 3647
INFO ALL EC CAPITALS
AMEMBASSY BERN
AMEMBASSY OTTAWA
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
USMISSION OECD PARIS
USMISSION GENEVA

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E.O. 11652: N/A
TAGS: CIEC, EGEN, ETRD, EAID, EEC
SUBJECT: EC PREPARATION FOR CIEC -MAY 3 FOREIGN MINISTERS COUNCIL
WILL CONSIDER FINAL PACKAGE

REF: (A) EC BRUSSELS 4231 (NOTAL), (B) EC BRUSSELS 4021 (NOTAL),
(C) EC BRUSSELS 3181

1. SUMMARY: EC OFFICIALS HAVE BRIEFED US ON COUNCIL WORKING
GROUP AND COREPER CIEC PREPARATIONS FOR THE MAY 3 FOREIGN
MINISTERS COUNCIL. THE COUNCIL WILL CONSIDER THREE MAIN
PROPOSALS FOR A CIEC FINAL PACKAGE:

A) \$1 BILLION SPECIAL ACTION AID FOR THE POOREST LDCS;
B) EITHER A CLEARING OR POOLING ARRANGEMENT FOR A COMMON
FUND (CF) AND VARIOUS ALTERNATIVES FOR POSSIBLE

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ADDITIONAL CF FINANCING; AND
C) A STUDY OF A GLOBAL STABEX.
EC OFFICIALS DO NOT EXPECT THE COUNCIL TO REACH SPECIFIC
DECISIONS ON THE LATTER TWO PROPOSALS, BUT IT WILL
LIKELY POINT THE DIRECTION FOR AN EC PROPOSED FINAL
CIEC PACKAG. END SUMMARY.

2. EC PERMDEL AND COMMISSION OFFICIALS HAVE BRIEFED US ON THE RESULTS OF COREPER AND COUNCIL WORKING GROUP PREPARATIONS ON CIEC ISSUES FOR THE MAY 3 FOREIGN MINISTERS COUNCIL MEETING. THE MISSION HAS COPIES OF THE PROPOSALS CONCERNING A COMMOND FUND AND STABEX WHICH IT IS SENDING TO US MISSION OECD PARIS - M. LEVINE, AND EUR/RPE - MCLEAN. WE ALSO HAVE BEEN BRIEFED ON CURRENT DISCUSSIONS ON A SPECIAL AID ACTION FOR THE POOREST LDCS.

3. STABEX: SOME MEMBER STATES SAY THAT THE EC SHOULD MAKE A COMMITMENT TO HAVE AN INTERNATIONAL STUDY, WITHOUT AWAITING THE OUTCOME OF FURTHER INTERNAL EC WORK. OTHERS WANT FIRST TO HAVE A CLEAR VIEW WITHIN THE EC ON THE ELEMENTS OF A GLOBAL STABEX BEFORE LAUNCHING AN INTERNATIONAL STUDY. DISCUSSIONS HAVE SO FAR FOCUSED ON THE FOLLOWING POINTS: A) ANY NEW SCHEME SHOULD BE ADDITIONAL TO EXISTING FACILITIES AND SHOULD SUPPLEMENT THE IMF COMPENSATORY FINANCING FACILITY, THERE BY AVOIDING "DOUBLE COMPENSATION"; (B) A SCHEME SHOULD BE LIMITED TO THE MOST NEEDY LDCS; C) ONLY SIGNIFICANT COMMODITIES SHOULD BE COVERED AND PRODUCT SELECTION WOULD DEPEND TO SOME EXTENT ON THE CHOICE OF BENEFICIARY COUNTRIES; D) A BASKET, RATHER THAN COMMODITY-BY-COMMODITY APPROACH, IS FAVORED; D) A SYSTEM COULD BE ESTABLISHED EITHER AS A SPECIAL FACILITY WITH THE IMF ALONG THE LINES OF THE TRUST FUND OR BE ADMINISTERED BY A SEPARATE BODY; AND F) A STUDY COULD BE CARRIED OUT BY THE IMF, IMF/IBRD DEVELOPMENT COMMITTEE, UNCTAD OR AN AD HOC LIMITED OFFICIAL USE

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BODY.

4. THE UK PRESIDENCY PROPOSED A DRAFT RECOMMENDATION ON STABEX WHICH THE MAY 3 COUNCIL WILL CONSIDER PRO-POSING TO THE G-8. THE OPERATIONAL PART OF THIS DRAFT FOLLOWS: BEGIN TEXT:
(CIEC PARTICIPANTS) TOOK NOTE OF VARIOUS PROPOSALS FOR FURTHER INTERNATIONAL ACTION IN THE AREA OF EXPORT EARNINGS STABILIZATION AND AGREED THAT AN INTERNATIONAL STUDY WAS REQUIRED TO ASSESS THE PRECISE NEEDS OF DEVELOPING COUNTRIES AND THE MOST APPROPRIATE FORM OF INTERNATIONAL RESPONSE TO THESE NEEDS. THEY CONSIDERED THAT THE NECESSARY WORK SHOULD BE SET IN HAND AS A MATTER OF URGENCY WITHIN AND SHOULD TAKE ACCOUNT OF ALL RELEVANT ECONOMIC AND INSTITUTIONAL ASPECTS. END TEXT.

5. COMMENT: EC OFFICIALS DIFFER ON HOW FAR THE NINE MIGHT PROCEED WITH A GLOBAL STABEX PROPOSAL BEFORE THE

CIEC MINISTERIAL. UK PERMDEL OFFICIALS MAINTAIN THAT THE EC WILL LIKELY SUGGEST AN INTERNATIONAL STUDY WITHOUT ANY COMMITMENT TO ESTABLISH TABEX. OTHERS, AS INDICATED IN REF. A, BELIEVE THAT STABEX WILL EMERGE IN THE FINAL CIEC DISCUSSIONS AS A MAJOR ELEMENT OF A FINAL PACKAGE AND THE EC WILL END UP CALLING FOR A STUDY WITH A VIEW TOWARD ESTABLISHING A GLOBAL STABEX. END COMMENT.

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6. COMMOND FUND: COUNCIL WORKING GROUPS HAVE DESCRIBED FOR THE COUNCIL HOW VARIOUS CFS MIGHT OPERATE:
A) CLEARING; BUFFER STOCK MANAGERMENTS WOULD ENTER INTO RECIPROCAL ARRANGMENTS TO PLACE THEIR SURPLUSES IN A COMMON ACCOUNT FOR RELENDNING, UP TO A GIVEN MAXIMUM, TO COMMODITY COUNCILS NEEDING ADDED RESOURCES.
B) POOLING; MONIES PROVIDED FOR INDIVIDUAL BUFFER STOCK OPERATIONS ARE POOLED INTO A CENTRAL MECHANISM FOR THE BENEFIT OF PARTICIPATING INTERNATIONAL COMMODITY AGREEMENTS (ICA); PARTICIPANTS IN ICA BUFFER STOCKS MIGHT PAY IN 60 PERCENT OF THEIR NORMAL CONTRIBUTIONS AND THE SURPLUS BALANCE WOULD BE DEPOSITED IN A CENTRAL POOL TO BE REPAID WHEN REQUIRED. SHOULD A STOCK NEED

MORE FINANCING, IT MIGHT DRAW FROM THE CENTRAL POOL
UP TO 100 PERCENT OF ITS "NORMAL" REQUIREMENTS OR AN
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AGREED-UPON QUOTA. OFFSETTING PRICE MOVEMENT WOULD
USUALLY ENABLE THE POOL TO OPERATE IN SURPLUS. SHOULD
THE POOL'S RESOURCES BE INADEQUATE, ADDITIONAL FUNDS
MIGHT BE PROVIDED BY PARTICIPANTS IN THE ICA, BY
FINANCING ARRANGEMENTS THROUGH INTERNATIONAL FINANCIAL
INSTITUTIONS (IFI) OR A CF WHICH HAS ITS OWN RESOURCES.

7. ADDITIONAL RESOURCES FOR CF: THE COUNCIL GROUP
OUTLINES FOUR METHODS OF OBTAINING ADDITIONAL RESOURCES
FOR A CF:

A) THE US IDEAS FOR A STAND-BY OR OVERDRAFT FACILITY
WOULD PROVIDE AN EMERGENCY ARRANGEMENT UNDER WHICH A
PRE-DETERMINED AMOUNT OF FINANCE WOULD BE PROVIDED BY A
LOAN OR LINE OF CREDIT FROM AN IFI. THIS FACILITY WOULD
NOT CONSTITUTE "OWN RESOURCES" FOR A CF BECAUSE ARRANGE-
MENTS WOULD BE DIRECTLY BETWEEN THE ICA AND THE IFI. IF
THESE FUNDS WERE CHanneled THROUGH A CF, ITS ROLE WOULD
BE PASSIVE. UK PERMDEL OFFICIALS SAY THERE IS CONSIDERABLE
SUPPORT FOR THIS IDEA.

B) A CF COULD RAISE ITS OWN RESOURCES BY DIRECT
BORROWING ON THE INTERNATIONAL MONEY MARKETS. THE LOANS
COULD BE SECURED BY CALLABLE CAPITAL, OR GUARANTEES MADE
AVAILABLE BY PARTICIPANTS OR USE OF BUFFER STOCKS AS
COLLATERAL, OR BOTH.

C) PARTICIPANTS COULD CONTRIBUTE DIRECTLY TO A CF ON A
VOLUNTARY OR MANDATORY BASIS. THIS WOULD NOT NECESSARILY
BE A CENTRAL SOURCE FINANCING BECAUSE THESE FUNDS WOULD
ONLY SUPPLEMENT THOSE PROVIDED TO ICAS. EXCEPT FOR THE
DUTCH, THERE IS LITTLE SUPPORT FOR THIS PROPOSAL.

D) AS SUGGESTED BY THE UNCTAD SECRETARIAT, THE CF WOULD
MOBILIZE THE BULK OF THE FUNDS FOR ICAS. THERE IS NO
EC SUPPORT FOR THIS IDEA.

8. SPECIAL ACTION: COUNCIL WORKING GROUPS HAVE AGREED
TO PROPOSING A \$1 BILLION SPECIAL ACTION OVER A THREE-
YEAR PERIOD FOR THE POOREST LDCS. OECD COUNTRIES
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WOULD CONTRIBUTE THESE FUNDS. MOST OF THE NINE SUGGEST
THAT THE EC AND US SHARE EQUALLY 75 PERCENT OF THE
COST; I.E., THE US AND EC WOULD EACH PROVIDE \$375
MILLION, AND THE REMAINING OECD COUNTRIES WOULD

CONTRIBUTE 25 PERCENT. FRANCE, HOWEVER, IS HOLDING OUT FOR A 70-30 PERCENT SPLIT. THE MAIN COUNCIL DEBATE WILL FOCUS ON HOW THE NINE WILL SHARE THE BURDEN OF ITS OWN SHARE. AS INDICATED IN REF. C, THE EC PLANS TO CHANNEL ITS CONTRIBUTION THROUGH IDA, BUT REMAINS FLEXIBLE ON HOW OTHER DONORS MIGHT DISPERSE THEIR AID. (COMMENT: OUR SOURCES SAY COREPER EMPHASIZED THAT THE ABOVE AMOUNT SHOULD BE PUT FORWARD AS A FINAL OFFER. BUT, MOST OFFICIALS HERE CONCEDE THAT THE G-8 WILL FACE PRESSURE TO RAISE THE AMOUNT; THEY DO NOT EXCLUDE THE POSSIBILITY OF INCREASING THE AMOUNT AS A FINAL CONCESSION. END COMMENT.)

9. PERMDEL OFFICIALS DO NOT EXPECT THE COUNCIL TO REACH AGREEMENT ON THE PROPOSED STABEX STUDY NOR ON THE MODALITIES OF A CF. BUT, ITS DISCUSSIONS WILL LIKELY POINT THE DIRECTION OF THE EC POSITION FOR A FINAL CIEC PACKAGE. AGREEMENT, HOWEVER, IS EXPECTED ON THE OUTLINES OF THE PROPOSED SPECIAL AID ACTION. HINTON

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